



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

EPSOM AND EWELL BOROUGH COUNCIL
Annual Internal Audit Report & Opinion 2022-2023

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June 2023

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1. Role of Internal Audit

The Council is required by the Accounts and Audit (England) Regulations 2015, to

‘undertake an effective internal audit to evaluate the effectiveness of their risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

In fulfilling this requirement, the Council should have regard to the Public Sector Internal Audit Standards (PSIAS), as the internal audit standards set for local government. In addition, the Statement on the Role of the Head of Internal Audit in Public Service Organisations issued by CIPFA sets out best practice and should be used to assess arrangements to drive up audit quality and governance arrangements.

The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations’ objectives.



2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary. A full range of internal audit services is provided in forming the annual opinion.

As the Chief Internal Auditor, I review the approach to each audit, considering the following key points:

- Level of assurance required.
- Significance of the objectives under review to the organisations' success.
- Risks inherent in the achievement of objectives.
- Level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



The Southern Internal Audit Partnership (SIAP) maintain an agile approach to audit, seeking to maximise efficiencies and effectiveness in balancing the time and resource commitments of our clients, with the necessity to provide comprehensive, compliant and value adding assurance.

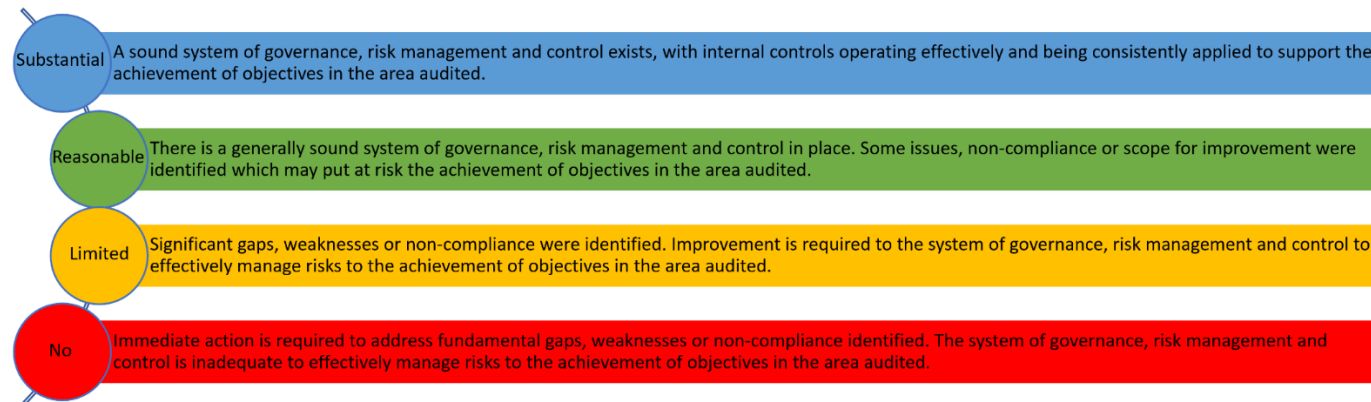
Working practices have been reviewed, modified and agreed with all partners following the impact and lessons learned from the COVID-19 pandemic and as a result we have sought to optimise the use of virtual technologies to communicate with key contacts and in completion of our fieldwork. However, the need for site visits to complete elements of testing continues to be assessed and agreed on a case-by-case basis.

3. Internal Audit Coverage

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council activities and to support the preparation of the Annual Governance Statement. Work has been planned and performed to obtain sufficient evidence to provide reasonable assurance that the internal control system is operating effectively.

The 2022-23 internal audit plan was considered by the Audit and Scrutiny Committee in April 2022. It was informed by internal audit's own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation. The plan has remained fluid throughout the year to maintain an effective focus and ensure that it continues to provide assurance, as required, over new or emerging challenges and risks that management need to consider, manage, and mitigate. Changes made to the plan were agreed with the Strategic Management Team and reported in detail to the Audit and Scrutiny Committee in the internal audit progress reports which were reviewed at each meeting.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:



4. Internal Audit Opinion

As Chief Internal Auditor, I am responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform their annual governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisations' framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Council's audit need that has been covered within the period.

We enjoy an open and honest working relationship with the Council. Our planning discussions and risk-based approach to internal audit ensure that the internal audit plan includes areas of significance raised by management to ensure that ongoing organisational improvements can be achieved. I feel that the maturity of this relationship and the Council's effective use of internal audit has assisted in identifying and putting in place action to mitigate weaknesses impacting on organisational governance, risk and control over the 2022-23 financial year.

Annual Internal Audit Opinion 2022-23

I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of the internal control environment.

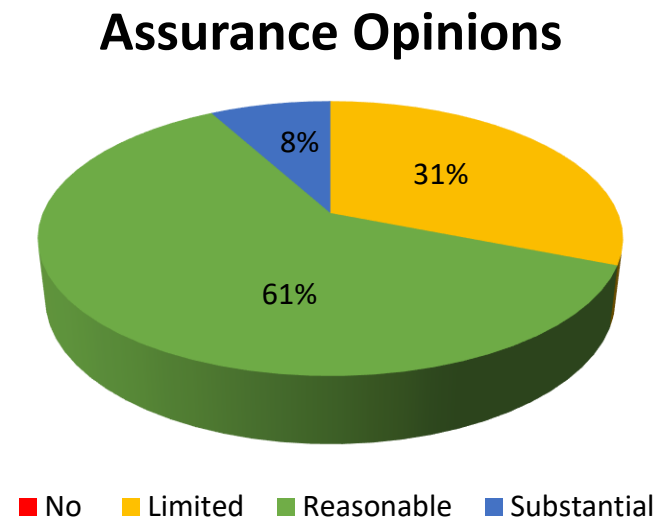
In my opinion frameworks of governance, risk management and management control are **reasonable** and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

5. Governance, Risk Management & Control – Overview & Key Observations

Assurance opinions for 2022-23 reviews

The findings from our reviews have been reported to the Audit and Scrutiny Committee in full throughout the year and a summary of the assurance opinions is outlined below.



As at the time of reporting, three audit review remains in progress (Accounts Receivable, Human Resources - Recruitment and Main Accounting). The outcome of these reviews will be reported in our next progress report to the Audit & Scrutiny Committee and incorporated in the annual opinion for 2023-24. Similarly, three audit reviews from 2021-22 were carried forward and have been included within this report.

Governance

Governance arrangements are considered during the planning and scoping of each review and in most cases, the scope of our work includes an overview of:

- the governance structure in place, including respective roles, responsibilities and reporting arrangements
- relevant policies and procedures to ensure that they are in line with requirements, regularly reviewed, approved and appropriately publicised and accessible to officers and staff.

In addition, during 2022-23 we undertook reviews of Savings Realisation Governance and Ethical Governance both of which concluded with reasonable assurance opinions.

Based on the work completed during the year and observations through our attendance at a variety of management and governance meetings, in our opinion the governance frameworks in place across the Council are robust, fit for purpose and subject to regular review. There is also appropriate reporting to the Audit & Scrutiny Committee to provide the opportunity for independent consideration and challenge including the Annual Governance Statement.

Risk management

In accordance with the constitution, the Audit & Scrutiny Committee play a key role 'to scrutinise the application of the Risk Management Strategy and oversee the corporate risk register'. This has been supported throughout the year through the Committees overview of the Corporate Performance Report that incorporates both corporate and committee risk registers as a regular agenda item throughout the year.

Following an internal audit review of risk management during 2021-22 in which a limited assurance opinion was concluded, the Chairman and Vice Chairman of the Audit & Scrutiny Committee were keen for early internal audit oversight of the revised Risk Management Strategy. This piece of work was undertaken as a consultancy engagement rather than a risk-based assurance review.

The revision of the Risk Management Strategy (July 2022) provides a strong foundation and framework for risk management within Epsom & Ewell Borough Council moving forward. It was acknowledged by the Council that the new processes and protocols introduced are still being developed and embedded, and further refinements are expected as the Strategy matures. It is anticipated that observations highlighted in our commissioned consultancy review will aid in that journey.

The outcomes from that review were reported to Audit & Scrutiny Committee at their meeting of 17 November 2022. Key observations included:

- Ensuring alignment of responsibilities and accountabilities between the Risk Management Strategy and the Council's constitution.
- Clarity over terminology and the application of the Council's risk appetite.
- Clear and concise articulation of risk mitigations as a contribution to calculation of residual risk.
- Requirement for a defined role of the Senior Leadership/ Management Team in the reporting and monitoring of risk.

Whilst implicated but not specifically detailed, the regular review of the strategy will ensure a retained focus and effective alignment to good practice and organisational change.

The risk register is a key document that is taken into account during the development of our risk based internal audit plan. The information in the risk register is taken into account when scoping each review in detail to ensure that our work is appropriately focussed.

Control

In general, internal audit work found there to be a sound control environment in place across the majority of review areas included in the 2022-23 plan that were working effectively to support the delivery of corporate objectives.

We generally found officers and staff to be well aware of the importance of effective control frameworks and compliance, and also open to our suggestion for improvements or enhancements where needed. Management actions agreed as a result of each review are monitored to completion to ensure that the identified risks and issues are addressed.

The key areas of challenge identified or confirmed through our work are outlined below:

Housing -Affordable Housing Delivery (2021-22)

Various strategies, policies and plans were reviewed during the audit to check that they provide clarity on the direction the Council is taking with affordable housing delivery, that quantified targets are set linked to affordable housing needs, that clear actions to achieve targets in place which are allocated to nominated responsible officers and that mechanisms are in place to measure and report on the delivery of targets. On reviewing each of these strategies, policies and plans it was evident that whilst there is a commitment to delivering affordable housing, as documented as a key priority within the Future40 Plan and Four Year Plan 2020-24, the overall framework is fragmented and there doesn't appear to be a clear direction or clarity on the affordable housing targets and how these will be achieved.

The Strategic Housing Market Assessment Update (September 2019) concluded that the overall net annual need for affordable housing was estimated as 349 units per annum. The Core Strategy 2007 (Local Plan) and the Revised Developers Contributions – Supplementary Planning Documents (Revised 2014) have not been updated to reflect the latest assessment. A further Housing and Economic Needs Assessment is being undertaken as part of the Local Plan. Whilst it's recognised that this task has only recently been completed, the results of this assessment should inform all key strategies, policies, plans relating to affordable housing needs and delivery, ensuring there is consistency / clarity on targets and how these will be achieved.

Risks associated with the delivery of affordable housing have not been identified, evaluated or recorded. Affordable housing delivery is an inherently complex area given the interdependencies and collaboration required both internally across the Council and externally with stakeholders and partners. Incorporating risks covering all aspects of affordable housing delivery in the service risk register would provide the Council with a clearer understanding of both internal and external risks that could impact on delivery and allow for a comprehensive set of mitigating actions to be developed and managed.

Communications with key stakeholders have more recently been formalised to improve the collaborative working arrangements to support the delivery of affordable housing. However, no comprehensive stakeholder analysis had been undertaken to establish all those (both internal and external) who contribute to the delivery of affordable housing. Completing a stakeholder analysis would provide further clarity on their roles, responsibilities and engagement protocols.

Community Health & Wellbeing (2021-22)

This audit focussed on the development and delivery of the Health & Wellbeing Strategy and how it contributes to the four-year plan; the impact that COVID has had on service delivery and the health and wellbeing priorities for the Borough were also taken into consideration.

Strategic health and wellbeing priorities were agreed and documented in the Epsom and Ewell Borough Council Health and Wellbeing Strategy 2019-2023; the strategy was approved by the Community and Wellbeing Committee on 10th October 2019.

The Health and Wellbeing Strategy states that a detailed action plan would be both set and reviewed annually; a Health and Wellbeing Action Plan was developed and agreed by members in January 2020, but no subsequent plan has been set. We were advised by the Head of Housing and Communities and the Health and Wellbeing Officer that the Annual Plan and internally focussed Service Delivery Plan had superseded the Health and Wellbeing Action Plan, however there is no link to the Strategy, which could impair understanding of objectives and lead to operational confusion. We also found that a key officer, who was the lead for two actions under the original Health and Wellbeing Action Plan, was not aware that it had been superseded. Further to this, reference to the Health and Wellbeing Action Plan in the Council's Four-Year Plan provides a link to the Health and Wellbeing Strategy, however, the reference is out of date as the action plan has been superseded.

The Draft Community Development Plan was produced in November 2021 but an approval process for the plan had not yet been agreed. Community Development Plan actions were not assigned to a lead officer and not all actions had specific measures of success. It was not clear how progress against the Community Development Plan would be measured and reported; the plan did not include monitoring arrangements. Through discussion with the Health & Wellbeing Officer reporting is an area for development, particularly in relation to impact and they would like to be in a position to produce an annual report in the future. In the meantime, reporting is likely to be through RAG rating of the report and number of projects delivered.

Although there used to be regular meetings between the Community Services Manager and the Health and Wellbeing Officer where any health and wellbeing needs identified through users of community services could be discussed and fed into the review of strategic priorities, we were advised that these have not taken place since the start of the pandemic.

Network Management

Please see separate report.

Development Management - CIL

This review sought assurance that CIL contributions were identified, collected and accounted for in line with CIL Regulations, and were allocated to appropriate projects in line with identified Council infrastructure needs. Positively, CIL guidance and process were well communicated and in accordance with the Regulations, however, sample testing of planning applications liable for CIL highlighted some inconsistencies with retention of documentation and recording of acknowledgement of receipt as required by the Regulations.

The way in which the neighbourhood portion of CIL is allocated does not fulfil the requirements of the CIL Regulations. Additionally, the Council has placed arbitrary restrictions on the amount of CIL that can be allocated in each year and on the value of projects that can be considered for CIL funding, which is also outside of CIL Regulations.

The current arrangements for the approval of expenditure funded by the 80% strategic portion were not in line with the governance structure that was originally approved by the Strategy and Resources Committee in 2015.

Our review of the Infrastructure Funding Statement for 2021/22 confirmed that the report had been published in accordance with the timescales and specifications of the CIL Regulations, however, some anomalies were identified in the figures in the tables published.

For two developments out of our sample tested, we found a discrepancy with the indexation figure added. Additionally demand notices were not being treated consistently or in a timely manner.

The Planning Policy Manager does not receive aged debt reports from Finance to enable them to follow up outstanding CIL debts, nor do they have access to the Finance system. As at January 2023, CIL aged debt (over 30 days old) stood at £303,306.97.

Management actions

Where our work identified risks that we considered fell outside the parameters acceptable to the Council, we agreed appropriate corrective actions and a timescale for improvement with the responsible managers. Progress is reported to the Audit and Scrutiny Committee throughout the year through the quarterly internal audit progress reports.

6. Quality Assurance and Improvement

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a Quality Assurance and Improvement Programme (QAIP) to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include provision for both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An 'External Quality Assessment' of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020.

In considering all sources of evidence the external assessment team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments], I can confirm through endorsement from the Institute of Internal Auditors that:

‘the Southern Internal Audit Partnership conforms to the Definition of Internal Auditing; the Code of Ethics; and the Standards’.

There are no disclosures of Non-Conformance to report.

8. Quality Control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2022-23 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success.
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach.
- A tailored audit approach using a defined methodology and assignment control documentation.
- Review and quality control of all internal audit work by professional qualified senior staff members.
- An internal quality assessment against the IPPF, PSIAS & LGAN.

9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	Actual
Percentage of internal audit plan delivered (to draft report)	95%	84%
Positive customer survey response		
● Epsom & Ewell Borough Council	90%	100%
● SIAP – all Partners	90%	99%
Public Sector Internal Audit Standards	Compliant	Compliant

Customer satisfaction is an assessment of responses to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process (survey date April 2023).

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Natalie Jerams
Deputy Head of Southern Internal Audit Partnership

June 2023

Annex 1

Summary of Audit Reviews Completed 2022-23

Substantial

A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.

Review area	Summary
NNDR	The scope of this review focussed on the processes in place for the administration and collection of NNDR to ensure it is robust and included testing a sample of transactions to ensure that they were made in line with statutory requirements and policy. A robust control framework was found to be operating and no significant issues were identified.

Reasonable

There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.

Review area	Summary
Operational Services (2021/22)	This audit reviewed the controls in place relating to the household waste collection service. In general, a sound framework of governance and control was found to be in place although observations were raised around the monitoring of garden waste subscriptions, driver assessments and bin stock.
Contract Management	The purpose of this audit was to ensure that the contract management function is being run in accordance with the Council's policies and procedures. A sound framework of control was found to be in place. Areas for improvement were identified relating to the handover from procurement to the Contract Manager when contracts commence and risk management relating to contracts could be improved.

Emergency Planning	This audit reviewed the plans / controls and governance arrangements in place which the Council will rely upon when responding to an emergency. A sound framework of governance and control was found with no significant issues identified. Areas for improvement were identified relating to the record keeping of contract meetings and the accessibility of emergency plans should access to the 'O' drive and/or ResilienceDirect be compromised during an emergency.
Procurement	This review sought assurance over the governance and control process for organisational procurement. Good controls were identified although areas for improvement were reported relating to defining the role of the Corporate Project Board, formalising training and guidance for officers and reporting of performance to SMT.
Ethical Governance	The purpose of this audit was to ensure that the values, behaviours, processes, procedures and culture of the Council are being upheld by its staff and Members. In general, a sound framework of governance and control was found to be in place with observations raised in relation to updating of the codes of conduct, review of policies and monitoring of training.
Council Tax	The purpose of this audit was to ensure that Council Tax is administered in accordance with approved national and local policies and procedures. A sound framework of governance and control was found with no significant issues identified. Areas for improvement were identified relating to the refunds process and National Fraud Initiative (NFI) checks.
Investments	The purpose of this audit was to ensure that property investments are purchased in line with agreed procedures, with rental income being maximised and capital risks minimised. In general, a sound framework of governance and control was found to be in place with observations raised in relation to the review and update of the investment strategy and improving the record keeping relating to the approval of property purchases.
Savings Realisation – Governance	The scope of this review was to ensure that the proposed savings are based on reasonable assumptions, actions to generate savings have been implemented and are being monitored, and that savings targets are being monitored to enable them to be met. In general, a sound framework of governance and control was found to be in place with observations raised in relation to the level of detail provided to members regarding the delivery of savings to date and also risk identification against the intended savings.

Limited

Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.

Review area	Summary
Housing (Affordable Housing Delivery) (2021/22)	The purpose of this audit was to focus on reviewing the overall framework in place for ensuring affordable housing for the borough is delivered in line with housing needs. It was a high level governance review aimed at ensuring that there are clear and consistent objectives and targets, clearly defined roles and responsibilities and robust mechanisms in place for monitoring and reporting against affordable housing objectives and delivery targets. On reviewing each of these strategies, policies and plans it was evident that whilst there is a commitment to delivering affordable housing, as documented as a key priority within the Future40 Plan and Four Year Plan 2020-24, the overall framework is fragmented and there doesn't appear to be a clear direction or clarity on the affordable housing targets and how these will be achieved. Risks associated with the delivery of affordable housing have not been identified, evaluated or recorded. No comprehensive stakeholder analysis had been undertaken to establish all those (both internal and external) who contribute to the delivery of affordable housing.
Community Health & Wellbeing (2021/22)	This audit focussed on the development and delivery of the Health & Wellbeing Strategy and how it contributes to the four-year plan; the impact that COVID has had on service delivery and the health and wellbeing priorities for the Borough were also taken into consideration. A Health and Wellbeing Action Plan was developed and agreed by members in January 2020, but no subsequent plan has been set. Further to this, reference to the Health and Wellbeing Action Plan in the Council's Four-Year Plan provides a link to the Health and Wellbeing Strategy, however, the reference is out of date as the action plan has been superseded. The Draft Community Development Plan was produced in November 2021 but an approval process for the plan has not yet been agreed and we also found that no monitoring arrangements are in place to review progress against the plan.
Network Management	Please see separate report.
Development Management - CIL	This review sought assurance that CIL contributions were identified, collected and accounted for in line with CIL Regulations, and were allocated to appropriate projects in line with identified Council infrastructure needs. Testing of a sample of planning applications liable for CIL highlighted some inconsistencies with retention of documentation and recording of acknowledgement of receipt as required by the Regulations along with some discrepancies with figures reported within the Infrastructure Funding Statement and indexation figures. We also found that the way in which the neighbourhood portion of CIL is allocated does not fulfil the requirements of the CIL Regulations and that the debt recovery process could be improved.